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INFO RUEHIL/AMEMBASSY ISLAMABAD 0581
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RUEHBUL/AMEMBASSY KABUL 0295
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RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEAIIA/CIA WASHDC
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL
RUEKJCS/SECDEF WASHINGTON DC
RHEHAAA/NSC WASHINGTON DC
RHMFISS/JOINT STAFF WASHINGTON DC

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SUBJECT: KARACHI - STOCK MARKET REMAINS FLAT

¶1. (SBU) Summary: The Karachi Stock Exchange (KSE)-100 Index ended the week of June 19 at 7,039.73, essentially flat over the previous week's close of 7,059.48. Overall market capitalization increased slightly to \$25.74 billion, with net foreign portfolio investment inflow of \$1.3 million. Investors remained on the sidelines while awaiting clarification of various budget questions and tax regulations. Security concerns and lack of a leverage product continued to deter investment. End summary.

¶2. (U) The KSE 100-Index ended the week of June 19 at 7,039.73, down 0.028 percent from the previous week's close. The first two trading days following the June 12 budget announcement, the market dropped 186.35 (-2.6 percent) before recovering slightly. Overall market capitalization increased to \$25.74 billion from \$25.71 billion. After three weeks of net selling, net foreign investment showed a modest inflow of \$1.3 million. The energy, banking, fertilizer, and cement sectors continue to be among the top performers. (Note: The KSE-100 Index comprises the top company from each of the 34 sectors on the KSE, in terms of market capitalization. An additional 66 companies are selected for the index based on market capitalization ranking. End Note.)

¶3. (SBU) KSE and brokerage firm contacts both identified budget related concerns as deterring both local and foreign investment. Mohammad Imran, a research analyst, said the market is closely watching the expected decrease in the interest rate, international aid pattern and projected fiscal year-end corporate results. Aneeta Mirza, head of marketing for KSE, said that she has not seen any "real excitement" in the market. Fears regarding the security situation and the absence of a leveraged product to replace the discontinued continuous funding system also left investors cautious and short on funds. Following intense speculation about changes in exchange related taxes, the June 13 budget announcement initially left investors confused. The capital value tax of 0.2 percent on the value of shares was replaced with a 16 percent tax on brokerage commissions. After analysis, most brokerage firms believe there will be very little impact on the cost to investors.

¶4. Comment: While the KSE-100 is up 22 percent since January 1, it remains 10.9 percent below the market high of April 20. In recent weeks, market activity has been relatively flat and investors will likely continue to be cautious as they watch for any changes in the security situation. Also dogging the market will be administrative issues such as the lack of a leverage product and uncertainty about interpretation of changes in the tax code.

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